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MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 1 2015/2016

**BAC1614 – FUNDAMENTALS OF FINANCIAL
ACCOUNTING**
(All sections / Groups)

10 OCTOBER 2015
9.00AM – 12.00PM
(3 Hours)

INSTRUCTIONS TO STUDENT

1. This question paper consists of 9 pages excluding cover page with 4 Questions only.
2. Attempt ALL questions. The distribution of the marks for each question is given.
3. Please write all your answers in the Answer Booklet provided.

QUESTION 1**Part A**

Lim Company Sdn Bhd had the following assets and liabilities on the dates indicated.

<u>December 31</u>	<u>Total Assets</u>	<u>Total Liabilities</u>
2012	RM530,000	RM230,000
2013	RM480,000	RM210,000
2014	RM590,000	RM300,000

Lim, began business on January 1, 2012, with an investment of RM100,000. For the year 2012, Lim paid dividends of RM25,000.

Required

From an analysis of the change in equity during the year, compute the net income (or net loss) for:

- (i) 2013, assuming Lim made an additional investment of RM60,000 and paid no dividends in 2013. (2.5 marks)
- (ii) 2014, assuming Lim made an additional investment of RM10,000 and paid dividends of RM30,000 in 2014. (2.5 marks)

Part B

The following ledger accounts are used by the MAAU Track & Field Co.

Accounts Receivable
 Prepaid Advertising
 Prepaid Rent
 Unearned Ticket Revenue
 Advertising Expense
 Rent Expense
 Ticket Revenue
 Sales Revenue

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QUESTION 1**Part B (cont'd)**

The following transactions occurred for the month of September.

- (a) On September 1, paid rent on the track facility for three months, RM210,000.
- (b) On September 1, sold season tickets for admission to the race track. The racing season is year-round with 25 racing days each month. Season ticket sales totaled RM840,000.
- (c) On September 1, borrowed RM300,000 from First National Bank by issuing a 9% note payable due in three months.
- (d) On September 5, schedules for 20 racing days in September, 25 racing days in October, and 15 racing days in November were printed for RM3,000.
- (e) The accountant for the concessions company reported that gross receipts for September were RM160,000. Ten percent is due to the track and will be remitted by October 10.

Required

For each of the following transaction above:

- (i) Prepare the journal entry (if one is required) to record the initial transaction. (5 marks)
- (ii) Prepare the adjusting entry, if any, required on September 30, the end of the fiscal year (5 marks)

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QUESTION 1**Part C**

The unadjusted trial balance and the adjustment data for MMU Training Institute are given below along with adjusting entry information.

MMU Training Institute Unadjusted Trail Balance December 31, 2014 (in millions)		
Accounts	RM	RM
Cash	58,000	
Accounts Receivable	59,000	
Prepaid insurance	12,000	
Equipment	8,000	
Accumulated depreciation - equipment		2,000
Buildings	57,500	
Accumulated depreciation - buildings		17,500
Land	55,000	
Unearned rent		16,000
Long-term notes payable		50,000
Share capital - ordinary		115,600
Tuition fees earned		74,000
Training fees earned		23,400
Wages expenses	32,000	
Utilities expenses	8,000	
Property taxes expenses	5,000	
Interest expenses	4,000	
Totals	<u>RM 298,500</u>	<u>RM 298,500</u>

Additional information items:

- The Prepaid Insurance account consists of a payment for a 1 year policy. An analysis of the insurance invoice indicates that one half of the policy has expired by the end of the December 31 year-end.
- A cash payment for space sublet for 8 months was received on July 1 and was credited to Unearned Rent.
- Accrued interest expense on the note payable of RM1,000 has been incurred but not paid.

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QUESTION 1**Part C (cont'd)****Required**

(i) Show the calculation for net income without the adjustments and net income with the adjustments. Which one gives the most accurate net income? (5 marks)

(ii) What accounting principles are being violated if the adjustments are not made? (3 marks)

(iii) What is the impact on net income if these adjustments are not recorded? (2 marks)

[Total 25 marks]

QUESTION 2**Part A**

Maggi Company purchased merchandise from Mee Company with an invoice price of RM300,000 and credit terms of 2/10, n/30. The merchandise had cost Mee Company RM200,000. Maggi Company paid within the discount period. Assume that both buyer and seller use a perpetual inventory system.

Required

(i) Prepare entries that the buyer should record for (a) the purchase and (b) the cash payment. (2.5 marks)

(ii) Prepare entries that the seller should record for (a) the sale and (b) the cash collection. (3.5 marks)

(iii) Assume that the buyer borrowed enough cash to pay the balance on the last day of the discount period at an annual interest rate of 9% and paid it back on the last day of the credit period. Compute how much the buyer saved by following this strategy and provide a brief explanation with regard to the strategy. (Assume a 365-day year and round dollar amounts to the nearest cent.) (3 marks)

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QUESTION 2**Part B**

Monitor Company reported the current month purchase and sales data for its only product and uses the perpetual inventory system.

<u>Date</u>	<u>Activities</u>	<u>Units acquired at cost</u>	<u>Units Sold at Retail</u>
April 1	Beginning Inventory	175 units @ RM15.00	
4	Purchase	150 units @ RM16.00	
7	Sales		160 units @ RM30.00
10	Purchase	200 units @ RM17.00	
16	Sales		250 units @ RM30.00
25	Purchase	160 units @ RM18.00	
28	Sales		150 units @ RM32.00

Required

- (i) Determine the cost assigned to ending inventory and cost of goods sold using FIFO and LIFO method for the month of April. Show all workings. (10 marks)
- (ii) Determine what the income before taxes would be, had Monitor used either the FIFO and LIFO method of inventory valuation, if expenses for the month was RM5,000. Show all workings. (3 marks)
- (iii) What would be the difference in income taxes between FIFO and LIFO, assuming a 30% tax rate. Which method would it choose? Show all workings (3 marks)

[Total 25 marks]

QUESTION 3**Part A**

Delima Bhd sold RM5,000,000, 10%, 10-year bonds on January 1, 2013. The bonds were dated January 1, 2013 and pay interest on July 1 and January 1. Delima Bhd uses the straight-line method to amortize bond premium or discount. The bonds were sold at 104. Assume no interest is accrued on June 30.

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QUESTION 3**Part A (cont'd)****Required**

(i) Prepare the journal entry to record the issuance of the bonds on January 1, 2013. (1.5 marks)

(ii) Prepare a bond amortization schedule for the first four (4) interest periods. (5.5 marks)

(iii) Prepare the journal entries for interest and the amortization of the bond in 2013 and 2014. (7 marks)

Part B

On May 31, 2015, Fatimah Sdn Bhd had a cash balance per books of RM6,781.50. The bank statement from BP Bank on that date showed a balance of RM6,804.60. A comparison of the statement with the cash account revealed the following facts:-

- The statement included a debit memo of RM40 for the printing of additional company cheques.
- Cash sales of RM836.15 on May 12 were deposited in the bank. The cash receipts journal entry and the deposit slip were incorrectly made for RM886.15. The bank credited Fatimah Sdn Bhd for the correct amount.
- Outstanding cheques at May 21 totaled RM276.25. Deposits in transit were RM1,916.15.
- On May 18, the company issued cheque No. 1181 for RM685 to Ali Sdn Bhd, on account. The cheque, which cleared the bank in May, was incorrectly journalized and posted by Fatimah Sdn Bhd for RM658.
- A RM3,000 note receivable was collected by the bank for Fatimah Sdn Bhd on May 31 plus RM80 interest. The bank charged a collection fee of RM20. No interest has been accrued on the note.
- Included with the cancelled cheques was a cheque issued by Bridgecom Sdn Bhd to Abu Sdn Bhd for RM600 that was incorrectly charged to Fatimah Sdn Bhd by the bank.

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QUESTION 3**Part B (cont'd)**

- On May 31, the bank statement showed NSF charge RM680 for a cheque issued by Sazali Enterprise, a customer, to Fatimah Sdn Bhd on account.

Required

(i) Prepare the bank reconciliation at May 31, 2015 (5 marks)

(ii) Prepare the necessary adjusting entries for Fatimah Sdn Bhd at May 31, 2015. (6 marks)

[Total 25 marks]

QUESTION 4**Part A**

Manitowoc Berhad and Caterpillar Berhad are both producers and sellers of large fixed assets. Caterpillar is substantially larger than Manitowoc. Financial information taken from each company's financial statement is provided below.

<u>Financial Highlights</u>	<u>Caterpillar (in millions)</u>		<u>Manitowoc (in thousands)</u>	
	<u>Current year</u>	<u>Prior Year</u>	<u>Current Year</u>	<u>Prior Year</u>
Cash and short-term investments	RM 638	RM 419	RM 16,635	RM 16,163
Accounts receivable	4,285	4,290	51,011	29,500
Inventory	1,921	1,835	52,928	36,793
Other current assets	803	865	14,571	14,082
Current assets	7,647	7,409	135,145	96,538
Total assets	16,830	16,250	329,915	159,465
Current liabilities	6,049	5,498	110,923	54,064
Total liabilities	13,442	13,339	243,254	84,408
Total shareholders' equity	3,388	2,911	81,661	75,057
Sales	15,451		313,149	
Cost of goods sold	12,000		237,679	
Interest expenses	191		1,865	
Income tax expenses	501		8,551	
Net income	1,136		14,569	

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QUESTION 4**Part A (cont'd)****Required**

Calculate the following ratios of both companies for the current year. Provide brief explanation of liquidity, profitability and solvency position of both companies.

- (i) Current ratio
- (ii) Acid test ratio
- (iii) Receivable turnover
- (iv) Inventory turnover
- (v) Asset turnover
- (vi) Profit margin
- (vii) Return on assets
- (viii) Return on equity
- (ix) Debt to total assets
- (x) Times interest earned

(15 marks)

Part B

The ledger of Roda Sdn Bhd at the end of the current year shows Account Receivable RM110,000; Sales RM840,000; and Sales Return and Allowances RM28,000.

Required

- (i) If Roda Sdn Bhd uses the direct write-off method to account for uncollectible accounts, journalize the adjusting entries at December 31, assuming Roda Sdn Bhd determines that Koperasi Hijau Bhd RM1,400 balance is uncollectible.
- (ii) If Allowance for Doubtful Accounts has a credit balance of RM2,100 in the trial balance, journalize the adjusting entry at December 31, assuming bad debts are expected to be:
 - (a) 1% of net sales, and
 - (b) 10% of accounts receivable.

(4 marks)

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QUESTION 4**Part B (cont'd)**

(iii) If Allowance for Doubtful Accounts has a debit balance of RM200 in the trial balance, journalize the adjusting entry at December 31, assuming bad debts are expected to be

- (a) 0.75% of net sales, and
- (b) 6% of accounts receivable.

(4 marks)

[Total 25 marks]**End-of-page**